

Message Text

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ACTION EB-11

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 1518

INFO AMEMBASSY PORT AU PRINCE

UNCLAS SANTO DOMINGO 3875

E.O. 11652: N/A

TAGS: EFIN, DR

SUBJECT: NEW TAXES ON SUGAR AND MOLASSES EXPORTS

1. IN TWO CONSECUTIVE SESSIONS AFTER STRENUOUS ONE-HOUR DEBATE ON SEPTEMBER 17, SENATE UNANIMOUSLY APPROVED A PROPOSED NEW LAW, SUBMITTED BY THE EXECUTIVE BRANCH, TO REVISE THE SUGAR AND MOLASSES EXPORT TAX STRUCTURE. THE FOLLOWING DAY, CHAMBER OF DEPUTIES DID SAME. TO BECOME LAW, THE LEGISLATION MUST BE SIGNED BY THE PRESIDENT, AND OFFICIALLY PUBLISHED. IF THE PROCESS IS COMPLETED SOON, IT WILL BE THE SECOND SUGAR EXPORT TAX REVISION IN 1974.

2. FOR TAXING SUGAR EXPORTS, THE PROPOSED LAW DEVIDES EXPORTS INTO THREE CATEGORIES: CAT. I. EXPORTS OF LESS THAN 100,000 TONS; CAT. IIM EXPORTS BETWEEN 100,000 AND 300,000 TONS: AND CAT. III EXPORTS OVER 300,000 TONS. A SLIDING TAX SCALE WOULD THEN BE APPLIED TO EACH CATEGORY ACCORDING TO THE F.A.S. DOMINICAN PORT. SUGAR PRICE CATEGORY AS FOLLOWS:

CAT. I

PRICE PER LB.	TAX RATE
BELOW \$0.10	NO TAX
\$0.10 - \$0.20	25 PERCENT OF PRICE ABOVE \$0.10
OVER \$0.20	50 PERCENT OF PRICE ABOVE \$0.20

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CAT. II.

BELOW \$0.10	28 PERCENT AD-VALOREM
\$0.10 - \$0.15	36 PERCENT OF PRICE ABOVE \$0.10
\$0.15 - \$0.20	45 PERCENT OF PRICE ABOVE \$0.15
OVER \$0.20	50 PERCENT OF PRICE ABOVE \$0.20

CAT. III.

BELOW \$0.10	16 PERCENT AD-VALOREM
\$0.10 - \$0.15	25 PERCENT OF PRICE ABOVE \$0.10
\$0.15 - \$0.20	45 PERCENT OF PRICE ABOVE \$0.15
OVER \$0.20	50 PERCENT OF PRICE ABOVE \$0.20

3. SUGAR PRODUCERS WOULD BE PERMITTED TO RETAIN EARNINGS OF 50 PERCENT OF PRICES OVER \$0.20 PER LB. WITH THE UNDERSTANDING THAT INCOME SHOULD BE USED TO IMPROVE SUGAR WORKERS' CONDITIONS (ESPECIALLY HOUSING) AND TO IMPROVE PRODUCTIVITY OF SUGAR PRODUCTION AND ITS DERIVATIVES. WHILE INCREASED TAX REVENUES WOULD GO INTO THE NATIONAL GENERAL FUND, THE GOVERNMENT WOULD PROMISE TO SPEND 25 PERCENT OF THE TAXES RECEIVED ON PRICES ABOVE \$0.20 PER LB. ON HOUSING FOR SUGAR INDUSTRY EMPLOYEES.

4. THE EXPORT TAX STRUCTURE FOR INVERTED AND FINAL MOLASSES ALSO IS PROPOSED AS FOLLOWS: (BASED ON F.A.S. DOMINICAN PORT SUGAR PRICE)

INVERTED MOLASSES

PRICE PER 100 LBS.	TAX RATE
\$3.50	NO TAX
\$3.51 - \$4.00	25 PERCENT OF PRICE OVER \$3.50
\$4.01 - \$4.50	35 PERCENT OF PRICE OVER \$3.50
\$4.51 AND ABOVE	50 PERCENT OF PRICE OVER \$3.50

FINAL MOLASSES:

PRICE PER U.S. GAL.	TAX RATE
BELOW \$0.1285	NO TAX
\$0.1285 - \$0.15	25 PERCENT OVER \$0.1285
\$0.15 - \$0.15 - \$0.20	40 PERCENT OVER \$0.1285
OVER \$0.20	50 PERCENT OVER \$0.1285

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OVER \$0.22 ADDITIONAL \$0.01 PER GAL.

5. AT CURRENT EXPORT LEVELS AND WITH A \$0.20 PER LB. SUGAR PRICE, THE GOVERNMENT WOULD EXPECT TO RECEIVE REVENUE ON THE ORDER OF 121.5 MILLION PESOS (ONE PESO EQUALS ONE DOLLAR), ANNUALLY, FROM THE PROPOSED LAW. AT \$0.22 PER LB., REVENUES WOULD BE 135 MILLION PESOS AND AT \$0.25 PER LB., 147 MILLION PESOS. IT IS ESTIMATED THAT THE GOVERNMENT RECEIVED ABOUT

16 MILLION PESOS IN TAX REVENUES FROM SUGAR EXPORTS IN 1973. ORIGINAL ESTIMATES FOR 1974 WERE 31 MILLION PESOS. IF THE NEW LEGISLATION IS EFFECTIVE SOON, THE GOVERNMENT MIGHT EXPECT TO RECEIVE AS MUCH AS 65 MILLION THIS YEAR.

6. COMMENT: CLEARLY, THE GOVERNMENT INTENDS TO SEEK A LARGER SLICE OF THE BENEFITS DERIVED FROM HIGHER SUGAR PRICES. IN 1973 THE STATE-OWNED SUGAR ENTERPRICE, CEA, ACCOUNTED FOR ABOUT 61 PERCENT OF THE DOMINICAN REPUBLIC'S SUGAR PRODUCTION, LEAVING ABOUT 39 PERCENT IN PRIVATE HANDS (US-OWNED GULF AND WESTERN CORPORATION; 33 PERCENT; AND LOCALLY OWNED VICINI FAMILY; 7 PERCENT.) IT IS BELIEVED THAT THE NEW LAW ELIMINATES A FORMER TAX DIFFERENCE BETWEEN EXPORTS TO THE US AND OTHER COUNTRIES. THE FORMER TAX DIFFERENCE WAS DESIGNED TO ENCOURAGE SUGAR EXPORTS TO THE US IN ORDER TO FULFILL US QUOTOS.

7 IT IS UNCLEAR WHY SCALE OF FIGURES IN CATEGORY II ARE HIGHER THAN THOSE IN CATEGORY III. IN ANY EVENT, NO EXPORTER CURRENTLY FALLS IN THE MIDDLE CATEGORY. THE VICINI FAMILY WOULD HAVE TO INCREASE ITS EXPORTS MORE THAN 15 PERCENT TO REACH CATEGORY II AND GULF AND WESTERN'S EXPORTS WOULD HAVE TO FALL BY A FOURTH TO BE TAXED IN THAT CATEGORY.
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